

Audit Report



RECONCILIATION OF DIFFERENCES REPORTED FOR CHECKS
ISSUED BY THE DEFENSE FINANCE AND ACCOUNTING SERVICE
COLUMBUS CENTER DISBURSING STATIONS

Report No. D-2000-044

November 30, 1999

Office of the Inspector General
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Acronyms

DCRM
DFAS

Defense Check Reconciliation Module
Defense Finance and Accounting Service



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



November 30, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Reconciliation of Differences Reported for Checks Issued
by the Defense Finance and Accounting Service Columbus Center
Disbursing Stations (Report No. D-2000-044)

We are providing this report for information and use. This is the third in a series of reports on reconciliations made by disbursing stations for the Fund Balance With Treasury account. We conducted the audit in support of our annual audits of the Fund Balance With Treasury account and the DoD Agency-Wide financial statements, as required by the Chief Financial Officers Act of 1990, the Federal Financial Management Act of 1994, and the Federal Financial Management Improvement Act of 1996. We considered management comments on a draft of this report when preparing the final report.

Comments of the draft of this report met the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson at (703) 604-9582 (DSN 664-9582) (crichardson@dodig.osd.mil) or Mr. Robert E. Benefiel, Jr., at (703) 604-9515 (DSN 664-9515) (rbenefiel@dodig.osd.mil). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

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Report No. D-2000-044
(Project No. 8FA-2021.02)

November 30, 1999

Reconciliation of Differences Reported for Checks Issued by the Defense Finance and Accounting Service Columbus Center Disbursing Stations

Executive Summary

Introduction. This is the third in a series of audits on the Fund Balance With Treasury (an asset account) performed in response to Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, and Public Law 94-208, the "Federal Financial Management Improvement Act of 1996," September 30, 1996. The report discusses reconciliations that DoD disbursing stations should conduct to accurately report to the U.S. Treasury the dollar amounts of checks issued. The reconciliation has a direct affect on the accuracy of the Fund Balance With Treasury account. Reconciling the Fund Balance With Treasury account is a DoD implementation strategy for obtaining auditable financial statements.

We reviewed four disbursing stations that provided data for the Fund Balance With Treasury account on the FY 1998 DoD Agency-Wide financial statements. All four disbursing stations were located at the Defense Finance and Accounting Service Columbus Center, Columbus, Ohio. During FY 1998, the four disbursing stations reported checks issued to the U.S. Treasury totaling \$7.9 billion. The U.S. Treasury records the disbursement and collection data and maintains the Fund Balance With Treasury accounts for DoD appropriations. The FY 1998 DoD Agency-Wide financial statements reported \$167.5 billion in the Fund Balance With Treasury account.

Objectives. The audit objective was to assess controls over collection and disbursing activities and monthly reporting to the U.S. Treasury. This report focused on the objective as it applied to checks issued. We also reviewed the adequacy of the management control program as it applied to the audit objective.

Results. Four disbursing stations at the Defense Finance and Accounting Service Columbus Center did not adequately reconcile differences reported by the U.S. Treasury for checks issued. As of September 30, 1998, the four stations had accumulated \$353.9 million in unreconciled differences for checks issued since FY 1991. In addition, the Defense Finance and Accounting Service Centers (the Centers) and disbursing stations did not systematically track differences reported by the U.S. Treasury for checks issued. As a result, the unreconciled differences for checks issued contributed to the inaccuracy of the DoD Fund Balance With Treasury account.

Further, the U.S. Treasury will continue to report differences for checks issued each month until complete reconciliation procedures are developed and the differences are fully reconciled (reduced to zero).

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 5, "Disbursing Policy and Procedures," May 9, 1996, to establish complete procedures for reconciling differences in checks issued. We recommend that the Director, Defense Finance and Accounting Service, develop an automated database for the Centers to use in tracking differences in checks issued; develop a standard format for the Centers to use in reporting the differences; and require the Centers to provide quarterly reports on differences to Headquarters, Defense Finance and Accounting Service, for management action.

Management Comments. The Under Secretary of Defense (Comptroller) concurred with the recommendations and stated that DoD Regulation 7000.14-R, volume 5, will be revised to establish complete procedures for reconciling differences in checks issued. The Defense Finance and Accounting Service concurred and will also develop an automated database for the Centers to use in tracking differences in checks issued; develop a standard format for the Centers to report the differences; and require the Centers to provide quarterly reports on differences to the Defense Finance and Accounting Service headquarters. However, the Defense Finance and Accounting Service did not agree that unreconciled checks issued differences contributed to the inaccuracy of the DoD Fund Balance With Treasury account because the preponderance of checks issued differences were caused by delays in transmitting check issue information to the U.S. Treasury. A discussion of management comments is in the Finding section of the report, and the text of the comments is in the Management Comments section of the report.

Audit Response. We maintain that large unreconciled checks issued differences can not be simply explained away by delays in transmitting check issue information. Nevertheless, management agreed with our recommendations and therefore no further comments are necessary. Appendix D of this report contains a discussion of the impact of differences in checks issued on the Fund Balance With Treasury account.

Table of Contents

Executive Summary	i
Introduction	
Introduction	1
Background	1
Objectives	3
Finding	
Reconciliation of Differences Reported for Checks Issued	4
Appendixes	
A. Audit Process	
Scope and Methodology	14
Management Control Program	15
B. Summary of Prior Coverage	17
C. DoD Implementation Strategy and Reconciliation of the Fund	
Balance With Treasury Account	18
D. How Differences in Checks Issued Affect the Fund Balance With	
Treasury Account	20
E. Report Distribution	21
Management Comments	
Under Secretary of Defense (Comptroller)	23
Defense Finance and Accounting Service	24

Introduction

This is the third in a series of audits on the Fund Balance With Treasury (an asset account) performed in response to Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, and Public Law 104-208, the "Federal Financial Management Improvement Act of 1996," September 30, 1996. DoD disbursing stations should conduct reconciliations to accurately report checks issued against the Fund Balance With Treasury account (an asset account).¹ In IG, DoD, Report No. 99-211, "Deposit Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 9, 1999, we discussed reconciliations that disbursing stations should conduct to accurately report deposit transactions in the Fund Balance With Treasury account. IG, DoD, Report No. 99-226, "Interagency Transfer Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July-28, 1999, discussed reconciliations that disbursing stations should conduct to accurately report interagency transfers. Reconciling the Fund Balance With Treasury account is one of the DoD implementation strategies for obtaining a favorable audit opinion on the DoD financial statements. See Appendix C for a discussion of the DoD implementation strategy and reconciliation of the Fund Balance With Treasury account.

Background

We reviewed four disbursing stations that provided data for the Fund Balance With Treasury account on the DoD Agency-Wide financial statements. The four stations, with disbursing station symbol numbers 6355, 6551, 8558, and 8565, were located at the Defense Finance and Accounting Service (DFAS) Columbus Center, Columbus, Ohio. During FY 1998, the four disbursing stations issued checks totaling \$7.9 billion. The U.S. Treasury records the collection and disbursement data in the Fund Balance With Treasury accounts based on the activity reported by DoD. The FY 1998 DoD Agency-Wide financial statements reported \$167.5 billion in the Fund Balance With Treasury account.

Disbursing Stations. The approximately 969 DoD disbursing stations are classified as Army, Navy, or Air Force disbursing stations. Disbursing stations submit their financial data and reports to one of the DFAS Centers. Army disbursing stations report to the DFAS Indianapolis Center, Indianapolis,

¹ A Federal entity's Fund Balance With Treasury account is the aggregate amount of funds in the entity's accounts with the U.S. Treasury for which the entity is authorized to make expenditures and pay liabilities.

Indiana; Navy disbursing stations report to the DFAS Cleveland Center, Cleveland, Ohio; and Air Force disbursing stations report to the DFAS Denver Center, Denver, Colorado.

Disbursing Station Reports on Checks Issued. The "Treasury Financial Manual," volume I, part 4, chapter 6000, "Checking Accounts With the United States Treasury," March 4, 1991, requires disbursing stations to report information to the Treasury on checks issued. The information must be reported by the close of business of the week in which the checks were issued, and at month's end. The U.S. Treasury stated that until data on checks issued are received, the U.S. Treasury is vulnerable to banking system errors and altered or counterfeit checks, which may negatively affect the Government's cash position.

All DoD disbursing stations must report their checks issued weekly to the DoD check reporting system, the Defense Check Reconciliation Module (DCRM), at the DFAS Denver Center. Disbursing stations electronically transmit the data on checks issued (the Weekly Transmission Reports) to the DCRM. The DFAS Denver Center, using the DCRM, sends all Weekly Transmission Reports from DoD disbursing stations to the U.S. Treasury.

DoD disbursing stations also prepare a monthly report, the SF 1179, "Month-End Check Issue Summary" (the Monthly Report), which summarizes the total of all checks issued during the month. Checks issued are reported on the Monthly Report and should agree with the total checks issued as shown on the Weekly Transmission Reports for that month.

In addition, DoD disbursing stations report their monthly totals of checks issued to the DFAS Centers on line 2.1, "Checks Issued on U.S. Treasury," of SF 1219, the "Statement of Accountability." The monthly total of checks issued, as reported on the Statement of Accountability, should agree with the monthly total of checks issued as shown on the Monthly Report.

U.S. Treasury Reconciliation Reports. The U.S. Treasury reconciles the checks issued, as shown on the Weekly Transmission Reports, with checks paid through the banking system and checks issued that are reported on the Statement of Accountability. Based on its reconciliation, the U.S. Treasury produces three reports that are sent to DFAS for further reconciliation. The three reports are:

- Department of the Treasury Financial Management Service Form 5206, "Advice of Check Issue Discrepancy" report (the Discrepancy Report);
- "Comparison of Checks Issued -- Detail Reported on Statements of Accountability and Block Control Level Totals" report (the Comparison Report); and
- "Outstanding Payments by Range" report (the Paid No Issue Report).

The implementation strategy for the Fund Balance With Treasury account requires the Director, DFAS, to direct disbursing officers to comply with existing policy guidance and to institute controls over the reconciliation process.

However, DoD Regulation 7000 14-R, volume 5, "Disbursing Policy and Procedures," May 9, 1996, does not contain specific guidance for reconciling Comparison Reports and Paid No Issue Reports or tracking Discrepancy, Comparison, and Paid No Issue Reports.

Objectives

The audit objective was to assess controls over collection and disbursing activities and monthly reporting to the U.S. Treasury. This report focused on the objective as it applied to checks issued. We also reviewed the adequacy of the management control program as it applied to the audit objective. Appendix A discusses the audit scope and methodology and the review of the management control program, and Appendix B lists prior audits related to the objectives.

Reconciliation of Differences Reported for Checks Issued

Four disbursing stations at the DFAS Columbus Center did not adequately reconcile differences reported by the U.S. Treasury for checks issued. As of September 30, 1998, the four stations had accumulated \$353.9 million in unreconciled differences for checks issued since FY 1991. In addition, the DFAS Centers and disbursing stations did not systematically track² differences reported by the U.S. Treasury for checks issued. This might not have occurred if DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 5, "Disbursing Policy and Procedures," May 9, 1996 had contained specific guidance. Specifically,

- The DFAS Centers were not required to provide Comparison Reports to their disbursing stations monthly for the reconciliation of differences on checks issued.
- Disbursing stations were not required to reconcile differences on checks issued that were reported monthly on the Comparison Reports.
- Disbursing stations were not required to reconcile differences on checks issued that were reported monthly on the Paid No Issue Reports.
- The DFAS Centers and disbursing stations were not required to systematically track differences on checks issued that were reported monthly on the three reports.

As a result, the unreconciled differences for checks issued contributed to the inaccuracy of the DoD Fund Balance With Treasury account. Further, the U.S. Treasury will continue to report differences for checks issued each month until complete reconciliation procedures are developed and the differences are fully reconciled (reduced to zero).

Reconciliation of Differences Reported on Checks Issued

The four disbursing stations at the DFAS Columbus Center adequately reconciled differences on checks issued that were reported by the U.S. Treasury on Discrepancy Reports, but did not adequately reconcile differences reported on the Comparison and Paid No Issue Reports. As of September 30, 1998, the four stations had accumulated unreconciled differences for checks issued totaling

² Tracking means tracing a difference from discovery through resolution. Tracking includes recording the initial difference and all subsequent adjustments or changes until the difference is reduced to zero.

\$353.9 million. The \$353.9 million in unreconciled differences consisted of \$258.6 million for Comparison Reports and \$95.3 million for Paid No Issue Reports. In addition, the DFAS Centers and disbursing stations did not systematically track differences reported by the U.S. Treasury on the Discrepancy, Comparison, and Paid No Issue Reports.

Discrepancy Reports

The U.S. Treasury compares check issue amounts reported on each disbursing station's Weekly Transmission Reports with the actual amount paid for each check through the banking system, and issues a Discrepancy Report (U.S. Treasury Financial Management Service Form 5206, "Advice of Check Issue Discrepancy") for every difference. The U.S. Treasury can also issue a Discrepancy Report based on a request from a DoD disbursing officer. The U.S. Treasury provides Discrepancy Reports to disbursing stations to identify the corrections that the U.S. Treasury has made to the check issue amounts reported on the disbursing stations' Weekly Transmission Reports. The corrections adjust the reported check issue amount to the actual amount paid for each check.

DoD Regulation 7000.14-R, volume 5, chapter 7, "U.S. Treasury Checks," August 21, 1997, requires disbursing stations to reconcile check issue differences reported by the U.S. Treasury on Discrepancy Reports. All four disbursing stations at the DFAS Columbus Center adequately reconciled their Discrepancy Reports. During FY 1998, disbursing station 6355 received and reconciled six Discrepancy Reports with an absolute value of \$18,402. The U.S. Treasury did not issue any Discrepancy Reports to disbursing stations 6551, 8558, or 8565.

Comparison Reports

The U.S. Treasury compares the value of checks issued and reported on the Statement of Accountability with the value of checks issued and adjustments reported on the Weekly Transmission Reports and Discrepancy Reports for every disbursing station each month. The U.S. Treasury sends Comparison Reports each month to the DFAS Centers, showing the comparison and any differences. The DFAS Centers should forward the Comparison Reports to their disbursing stations for reconciliation.

Reconciliation of Comparison Reports by Disbursing Stations. Disbursing stations 6355, 6551, 8558, and 8565 did not adequately reconcile differences for checks issued that were reported by the U.S. Treasury on the Comparison Report. As of September 30, 1998, the four disbursing stations had

accumulated 26 unreconciled differences totaling \$258.6 million, as shown in Table 1. Of the 26 differences, 14 were for FY 1998, and the remaining 12 differences had occurred since January 1991.

Table 1. Differences for Checks Issued as Reported on the September 30, 1998, Comparison Reports for Disbursing Stations 6355, 6551, 8558, and 8565

<u>Disbursing Station Symbol Number</u>	<u>Number of Differences</u>	<u>Amount</u>
Disbursing Station 6355	9	\$105,525,576
Disbursing Station 6551	8	41,413,084
Disbursing Station 8558	5	75,731,389
Disbursing Station 8565	4	35,951,264
Total	26	\$258,621,313

During the audit, the disbursing stations transmitted information to the DFAS Denver Center's DCRM on checks issued. This information related to 8 of the 26 differences shown on the Comparison Report for September 30, 1998. The action eliminated \$242.4 million of the \$258.6 million absolute difference, leaving an absolute difference of \$16.2 million as of October 31, 1998, for the disbursing stations to reconcile.

However, as of March 31, 1999, the disbursing stations had not reconciled \$11.2 million of the \$16.2 million absolute difference. The unreconciled \$11.2 million absolute difference accounted for 17 of the 26 differences on September 30, 1998.

Reconciling Comparison Reports. Disbursing stations did not adequately reconcile differences on checks issued that were identified on Comparison Reports, although reconciliation was their responsibility. This occurred because DoD Regulation 7000.14-R did not provide sufficient guidance. The Regulation did not give the requirements for providing Comparison Reports to disbursing stations, or for reconciling differences on checks issued that were reported on Comparison Reports.

Providing Comparison Reports to Disbursing Stations. DoD Regulation 7000.14-R did not require the DFAS Centers to provide Comparison Reports to their disbursing stations monthly for reconciliation; consequently, the DFAS Centers did not do so. During FY 1998, the DFAS Indianapolis Center provided only the January 1998 Comparison Reports to disbursing stations 6355 and 6551, and the DFAS Cleveland Center did not provide any Comparison Reports to disbursing stations 8558 and 8565.

Reconciling Differences on Checks Issued That Were Reported on the Comparison Report. DoD Regulation 7000.14-R did not require disbursing stations to perform monthly reconciliations of differences on checks issued that were reported on Comparison Reports. Disbursing stations 6355 and

6551 did not adequately reconcile the differences reported on the Comparison Reports that they received from the DFAS Indianapolis Center. As of September 30, 1998, the 2 disbursing stations had not reconciled 10 of the 12 differences reported on the January 1998 Comparison Report. If the DoD Regulation had required the disbursing stations to fully reconcile disbursing activity reported to the U.S. Treasury, the disbursing stations should have reconciled the differences on checks issued.

When a difference is found in amounts reported for checks issued shown on the Comparison Report, the disbursing station should conduct a reconciliation to determine whether the U.S. Treasury received the total value of checks issued for the month. In the reconciliation, the disbursing station should compare the total value of checks issued that the U.S. Treasury received from the DFAS Denver Center's DCRM to:

- The total value of checks issued that were reported on the Weekly Transmission Reports.³ The comparison should determine whether:
 - the disbursing station forwarded all Weekly Transmission Reports to the DCRM,
 - the DCRM forwarded all Weekly Transmission Reports to the U.S. Treasury, and
 - the DCRM and the U.S. Treasury received each Weekly Transmission Report in its entirety.
- The total value of checks issued that were reported on the Monthly Report. The comparison should determine whether the disbursing station prepared a Weekly Transmission Report for all checks issued during the month.

In addition, the reconciliation should assure that Discrepancy Report adjustments identified on the Comparison Report are properly reported on the Statement of Accountability.

Paid No Issue Reports

To identify checks that have been paid by a bank, but have not yet been reported as issued by a disbursing station, the U.S. Treasury compares checks paid through the banking system with checks reported on the disbursing station's Weekly Transmission Reports. The U.S. Treasury reports the results of the comparison for all DoD disbursing stations to the DFAS Denver Center on the

³ The Weekly Transmission Report does not commingle check issues for more than 1 month. Therefore, the Weekly Transmission Report for the first week or last week of the month may include less than 5 working days.

Paid No Issue Reports, issued monthly. The DFAS Denver Center forwards the Paid No Issue Reports to the DFAS Centers and disbursing stations monthly for reconciliation.

If the disbursing station has not completely reconciled the differences on checks issued that were shown on the Paid No Issue Report and does not submit the Weekly Transmission Report to the U.S. Treasury within 60 days of the Paid No Issue Report, the U.S. Treasury sends a followup letter to the disbursing officer requesting assistance in solving the problem.

The U.S. Treasury provides an "Outstanding Payments Subsidiary" report (the Subsidiary Report) with each followup letter to facilitate the disbursing officer's reconciliation. The Subsidiary Report identifies each paid check that the disbursing station has not reported as issued. To ensure that the disbursing officer conducts a thorough reconciliation, the Subsidiary Report does not identify the dollar amount paid for each check.

Disbursing Stations' Reconciliation of Paid No Issue Reports. Disbursing stations 6355, 6551, and 8558 did not adequately reconcile check issue differences reported by the U.S. Treasury on the Paid No Issue Reports. U.S. Treasury Paid No Issue Reports obtained from the DFAS Denver Center showed that as of September 30, 1998, disbursing stations 6355, 6551, and 8558 had accumulated 6,578 unreconciled differences on checks issued totaling \$95.3 million, as shown in Table 2. The DFAS Denver Center did not receive any reports from the U.S. Treasury for differences on checks issued for disbursing station 8565.

Table 2. Differences on Checks Issued as Reported on the September 30, 1998, Paid No Issue Reports for Disbursing Stations 6355, 6551, and 8558

<u>Disbursing Station Symbol Number</u>	<u>Number of Checks</u>	<u>Amount</u>
Disbursing Station 6355	2,986	\$20,395,296
Disbursing Station 6551	893	4,278,937
Disbursing Station 8558	<u>2,699</u>	<u>70,608,465</u>
Total	6,578	\$95,282,698

Of the \$95.3 million in differences, \$24.1 million (2,078 checks) was more than 60 days old. As shown in Table 3, the differences were attributable to disbursing stations 6355 and 8558.

Table 3. Differences Greater Than 60 Days Old for Checks Issued as Reported on the September 30, 1998, Paid No Issue Reports for Disbursing Stations 6355 and 8558

<u>Disbursing Station Symbol Number</u>	<u>Number of Checks</u>	<u>Amount</u>
Disbursing Station 6355	1,441	\$ 9,580,276
Disbursing Station 8558	<u>637</u>	<u>14,539,181</u>
Total	2,078	\$24,119,457

Reconciling Paid No Issue Reports. Disbursing stations 6355 and 8558 did not adequately reconcile differences on checks issued that were reported on Paid No Issue Reports, although reconciliation was their responsibility. DoD Regulation 7000.14-R does not require disbursing stations to reconcile differences on checks issued that were reported monthly on the Paid No Issue Report. If DoD Regulation 7000.14-R, volume 5, had required disbursing stations to fully reconcile disbursing activity reported to the U.S. Treasury, the disbursing stations should have reconciled the differences on checks issued.

When a difference is found on checks issued as shown on the Paid No Issue Report, the disbursing station should determine whether the check was a valid disbursement; if the disbursement was valid, the disbursing station should transmit the necessary information to the DFAS Denver Center for submission to the U.S. Treasury. When the check does not represent a valid disbursement, and the review shows that the check may have been improperly issued or the check supply may have been misappropriated, the disbursing officer should make a referral to the Defense Criminal Investigative Service.

Tracking Differences on Checks Issued

The DFAS Centers and disbursing stations did not systematically track differences in checks issued that were reported on Discrepancy, Comparison, and Paid No Issue Reports because of a lack of guidance. Specifically, DoD Regulation 7000.14-R did not require the DFAS Centers and disbursing stations to systematically track the differences each month. If required to do so, the DFAS Centers and disbursing stations should have tracked the differences in checks issued and taken action to resolve the differences.

Discrepancy Reports. The U.S. Treasury sends Discrepancy Reports directly to DoD disbursing stations, but does not send Discrepancy Report data to the DFAS Centers. The DFAS Cleveland and Indianapolis Centers did not collect and compile the Discrepancy Report data from their disbursing stations to track

the disbursing stations' progress in reconciling the differences in checks issued. Disbursing station 6355 did not track the differences in checks issued as shown on the Discrepancy Reports that it received.

Comparison Reports. The U.S. Treasury sends Comparison Reports to the DFAS Centers. The DFAS Cleveland and Indianapolis Centers did not always provide the Comparison Reports to their disbursing stations. The DFAS Cleveland Center, the DFAS Indianapolis Center, and disbursing stations 6355, 6551, 8558, and 8565 did not track the differences in checks issued that were shown on the Comparison Reports.

Paid No Issue Reports. The U.S. Treasury sent Paid No Issue Reports to the DFAS Denver Center. The DFAS Denver Center sent the Paid No Issue reports directly to DFAS Centers and disbursing stations for reconciliation of differences in checks issued. The DFAS Cleveland Center, the DFAS Indianapolis Center, and the four DFAS Columbus Center disbursing stations did not track the differences in checks issued that were shown on the Paid No Issue Reports.

Tracking Through an Automated Database. DFAS did not have an automated database for the DFAS Centers to use in tracking difference data, or a standard format for the Centers to use in reporting the differences. A standardized report would help DFAS managers determine the relative dollar value of each disbursing station's differences on checks issued and the priority to be given to reconciling the differences. The report would also help DFAS managers determine the materiality of the differences at fiscal year's end on the Fund Balance With Treasury account reported on the DoD Agency-Wide financial statements.

DoD Differences on Checks Issued. We obtained the U.S. Treasury's automated file of differences on checks issued because DFAS did not maintain a database or track difference data. The U.S. Treasury difference data showed that the U.S. Treasury issued the following.

- During FY 1998, Discrepancy Reports were issued to DoD disbursing stations showing differences of \$16.2 million on checks issued.
- Comparison Reports were issued to the DFAS Centers showing differences of \$7.2 billion on checks issued as of September 30, 1998.
- Paid No Issue Reports were issued to the DFAS Denver Center showing differences of \$180.4 million on checks issued that were over 60 days old as of September 30, 1998.

Actions by the U.S. Treasury

Beginning October 1998, the U.S. Treasury provided each DFAS Center with a monthly Checks Issued Report, which separately identified each Discrepancy Report issued to the Center's disbursing stations during the month. The DFAS Centers could use the Checks Issued Report to compile and track Discrepancy Report data for their disbursing stations.

The Checks Issued Report also provides all the information that disbursing stations need from the U.S. Treasury to completely reconcile differences on checks issued as reported on the Comparison Report. Disbursing stations could use the Checks Issued Report to assist in reconciling differences in checks issued as reported on the Comparison Report.

Impact of Differences in Checks Issued on the Fund Balance With Treasury Account

Differences in checks issued that are reported by the U.S. Treasury on Discrepancy, Comparison, and Paid No Issue Reports may affect the Statement of Accountability, and therefore the Statement of Transactions and the Fund Balance With Treasury account. Unreconciled differences contribute to the inaccuracy of the DoD Fund Balance With Treasury account. Further, the U.S. Treasury will continue to report differences on checks issued for reconciliation each month until complete reconciliation procedures are developed and fully implemented, and the differences are fully reconciled (reduced to zero). See Appendix D for a discussion of the impact of differences in checks issued on the Fund Balance With Treasury account.

Management Comments on the Finding and Audit Response

Management Comments on the Impact of Differences in Checks Issued on the Fund Balance With Treasury Account. The Director for Accounting, DFAS, stated that DFAS does not agree that unreconciled differences contribute to the inaccuracy of the DoD Fund Balance With Treasury account (as stated in the second sentence of the paragraph above). For the examples in the report, the preponderance of differences were caused by delays in transmitting check issue information to the U.S. Treasury. The differences caused by the delays did not affect the DoD Fund Balance With Treasury account. In limited cases where a check is negotiated for a different amount than was reported to the U.S. Treasury and the negotiated amount was correct, there was an immaterial impact on the DoD Fund Balance With Treasury account.

Audit Response. We do not agree that large unreconciled differences can be simply explained away by delays in transmitting check issue information. Reconciling differences reported by the U.S. Treasury for checks issued is a fundamental cash management process that should be performed promptly on a regular basis. The impact of checks issued differences can only be assessed at the disbursing station level and only after a complete reconciliation of the disbursing station's differences in checks issued. When the reconciliation identifies checks issued differences that affect the Statement of Accountability, those differences will also affect the Statement of Transactions and the DoD Fund Balance With Treasury account as explained in Appendix D.

Recommendations and Management Comments

1. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 5, "Disbursing Policy and Procedures," May 9, 1996, to require:

a. Defense Finance and Accounting Service Centers to provide Comparison Reports to their disbursing stations monthly for reconciliation.

b. Disbursing stations to reconcile differences in checks issued, as reported monthly on the Comparison Report and the Paid No Issue Report.

c. Defense Finance and Accounting Service Centers and disbursing stations to systematically track differences in checks issued as reported monthly on the Discrepancy Reports, Paid No Issue Reports, and Comparison Reports, so that management can evaluate progress in reconciling differences and take action on the outstanding differences.

Management Comments. The Under Secretary of Defense (Comptroller) concurred, stating that DoD Regulation 7000.14-R, volume 5, will be revised to incorporate the procedures for reconciling differences in the number of checks issued.

2. We recommend that the Director, Defense Finance and Accounting Service:

a. Develop an automated database for the Defense Finance and Accounting Service Centers to use in tracking differences in checks issued at disbursing stations, and develop a standard format for the Centers to use in reporting the differences.

b. Direct the Defense Finance and Accounting Service Centers to provide quarterly reports for management action to their disbursing stations and to Defense Finance and Accounting Service headquarters, identifying the amount of check issue differences for each disbursing station.

Management Comments. The Director for Accounting, DFAS, concurred, stating that the U.S. Treasury plans to develop an automated data file on differences in checks issued after the Y2K transition period is complete. The U.S. Treasury will provide the data electronically to DFAS. From the U.S. Treasury data, DFAS will develop an automated database for the DFAS Centers to use in tracking differences in checks issued, develop a standard format for the Centers to report the differences, and direct the Centers to provide quarterly reports on the amount of the differences to each disbursing station and to DFAS headquarters. DFAS stated that it will complete the actions by June 30, 2000.

Appendix A. Audit Process

Scope and Methodology

We reviewed the fiscal accountability for the four disbursing stations, which reported net disbursements of \$19.7 billion and checks issued totaling \$7.9 billion for FY 1998. Specifically, we analyzed the December 1997 and January 1998 Statements of Accountability, which reported a total of \$1.4 billion in checks issued. We judgmentally selected checks issued that were reported on the Statement of Accountability and traced the transactions to supporting source documents at the disbursing stations.

In addition, we reviewed the disbursing stations' process for reporting checks issued to the DCRM at the DFAS Denver Center. The review included the Weekly Transmissions and the Monthly Report. We also reviewed the process for reconciling differences on checks issued that were reported on Discrepancy Reports, Comparison Reports, and Paid No Issue Reports. The Discrepancy Reports were adequately reconciled by the four DFAS Columbus Center disbursing stations. We also determined whether the DFAS Centers and disbursing stations were tracking the differences on checks issued that were reported on the Discrepancy, Comparison, and Paid No Issue Reports.

We reviewed the "Treasury Financial Manual"; DoD Regulation 7000.14-R, the "DoD Financial Management Regulation"; DFAS Indianapolis Center Regulation 37-1, "Finance and Accounting Policy Implementation"; and DFAS Columbus Center operating procedures to identify the procedures used to record and report checks issued, and the procedures for reconciling differences on checks issued and reported on the Discrepancy, Comparison, and Paid No Issue Reports. In addition, we interviewed operating personnel and reviewed disbursing stations' practices for recording and reporting on checks issued.

Use of Computer-Processed Data. We relied on computer-processed data from the Standard Finance System Redesign-Subsystem 1 to identify checks issued that the disbursing stations recorded during December 1997 and January 1998. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that checks issued and reported to the U.S. Treasury on the Statement of Accountability agreed with checks issued and recorded in the computer-processed data. We did not find errors that would preclude the use of computer-processed data to meet the audit objectives or that would change the conclusions in the report.

DoD-wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the

Department of Defense has established 2 DoD-wide goals and 7 subordinate performance goals. This report pertains to achievement of the following goals (and subordinate performance goals):

Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the revolution in military affairs, and reengineer the Department to achieve a 21st century infrastructure. **Performance Goal 2.3:** Streamline the DoD infrastructure by redesigning the Department's support structure and pursuing business practice reforms. (00-DoD-2.3)

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the Department of Defense. This report provides coverage of the Defense Financial Management high-risk area.

Audit Type, Dates, and Standards. We performed this financial-related audit from March 1999 through August 1999 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations in DoD and at the Department of the Treasury, Hyattsville, Maryland. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the four disbursing stations' controls over reconciling check issue differences. Specifically, we reviewed controls over identifying and correcting differences on checks issued in the Monthly Report and the Statement of Accountability, and verifying whether corrections reported on the Monthly Report and the Statement of Accountability eliminated differences from the Discrepancy, Comparison, and Paid No Issue Reports. We also reviewed controls for tracking differences on checks issued and reported on the Discrepancy,

Comparison, and Paid No Issue Reports. Because we did not identify a material weakness, we did not assess the DFAS Columbus Center's self-evaluation applicable to those controls.

Adequacy of Management Controls. The controls we reviewed at DFAS Columbus Center were adequate in that we identified no material management control weaknesses.

Appendix B. Summary of Prior Coverage

The Inspector General, DoD, has issued three final reports and the Military Department audit organizations have issued three final reports on the reconciliation of differences between DoD disbursing stations and the U.S. Treasury.

Inspector General, DoD

Report No. 99-226, "Interagency Transfer Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 28, 1999.

Report No. 99-211, "Deposit Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 9, 1999.

Report No. 98-186, "Statement of Accountability Reconciliation Procedures for Defense Finance and Accounting Service Columbus Center, Disbursing Station 6551," August 14, 1998.

Army Audit Agency

Report No. AA 99-115, "Army's Principal Financial Statements for Fiscal Year 1998, Centralized Disbursing, Defense Finance and Accounting Service Indianapolis Center," January 27, 1999.

Naval Audit Service

Report No. 054-99, "Department of the Navy Principal Statements for Fiscal Year 1998: Fund Balance With Treasury," August 19, 1999.

Report No. 052-98, "Department of the Navy Principal Statements for Fiscal Year s 1997 and 1996: Fund Balance With Treasury," September 30, 1998.

Appendix C. DoD Implementation Strategy and Reconciliation of the Fund Balance With Treasury Account

DoD has developed an implementation strategy for auditable financial statements, in coordination with the Office of Management and Budget and the General Accounting Office, to obtain a favorable audit opinion on the DoD Agency-Wide financial statements. On November 19, 1998, the Principal Deputy Under Secretary of Defense (Comptroller) forwarded the implementation strategy to the DoD Components for implementation. Reconciling the Fund Balance With Treasury account is one of several goals of the implementation strategy.

Statement of Accountability. DoD collections, disbursements, and adjustments are processed at 969 disbursing stations at locations worldwide. These disbursing stations are authorized to prepare U.S. Treasury checks, initiate interagency transfers, and make deposits to U.S. Treasury accounts. Each disbursing station is required to prepare a monthly Statement of Accountability, which reports information to the U.S. Treasury on check issues, interagency transfers, and deposits. Within DoD, Statements of Accountability are combined at three DFAS Centers: the DFAS Denver Center, the DFAS Cleveland Center, and the DFAS Indianapolis Center.

Each of the three DFAS Centers electronically submits a combined Statement of Accountability to the U.S. Treasury using a Government telecommunications network. Disbursing stations 6355 and 6551 submit their information for the Statement of Accountability to the DFAS Indianapolis Center, and disbursing stations 8558 and 8565 submit their information to the DFAS Cleveland Center.

Statement of Transactions and the Fund Balance With Treasury Account. The disbursing stations also prepare SF 1220, the "Statement of Transactions," which reports collections and disbursements for each appropriation. The Statements of Transactions are combined at the DFAS Centers and submitted to the U.S. Treasury. The U.S. Treasury records the collection and disbursement data from the Statement of Transactions in the Fund Balance With Treasury account maintained for each appropriation in the Standard Treasury Accounting and Reporting System. Each month, the U.S. Treasury reports the outstanding balance in the Fund Balance With Treasury account to each Government agency on the Department of the Treasury Financial Management Service Form 6653, "Undisbursed Appropriation Account Ledger." The U.S. Treasury sends the Undisbursed Appropriation Account Ledger to each agency on microfiche and through a Government telecommunications network.

Reconciliations. The implementation strategy for the Fund Balance With Treasury account requires the Director, DFAS, to document the procedures used to reconcile the DoD Fund Balance With Treasury account records with those of the U.S. Treasury. Disbursing stations conduct monthly reconciliations between the Statement of Accountability and the Statement of Transactions, and should also reconcile differences in checks issued, interagency transfers, and

deposits. Differences in checks issued represent differences between the amounts of checks reported on the Statement of Accountability and the amounts paid by the banking system.

Disbursing stations also provide the information that the DFAS Centers need to conduct two other major reconciliations each month for their disbursing stations. The reconciliations compare the Statement of Accountability to the Statement of Transactions, and the Statement of Transactions to the Fund Balance With Treasury account reported on the Undisbursed Appropriation Account Ledger. The DFAS Centers also reconcile the Fund Balance With Treasury account reported on the Undisbursed Appropriation Account Ledger to budgetary data on SF 133, "Report on Budget Execution."

Appendix D. How Differences in Checks Issued Affect the Fund Balance With Treasury Account

Differences in checks issued that are reported by the U.S. Treasury on Discrepancy, Comparison, and Paid No Issue Reports may affect the Statement of Accountability. For Discrepancy Reports, to determine whether a check was issued for the correct amount, disbursing stations must research:

- the difference between the actual amount paid for each check through the banking system, and
- the check issue amount on the Statement of Accountability.

When the disbursing station determines that a check was issued for an incorrect amount, the disbursing station must collect or disburse the adjustment amount. When the disbursing station determines that a check was issued for the correct amount, the disbursing station must correct the information on the Statement of Accountability and the Statement of Transactions, which adjusts the Fund Balance With Treasury account.

For Comparison Reports, disbursing stations must determine whether the Statement of Accountability accurately shows the total value of checks issued for a particular month. When the disbursing station determines that the Statement of Accountability overstates or understates the value of checks issued, the disbursing station must correct the check issue information on the Statement of Accountability and the Statement of Transactions, which adjusts the Fund Balance With Treasury account.

For Paid No Issue Reports, disbursing stations must determine whether checks paid by the banking system and not reported as being issued by a disbursing station occurred because of incomplete reporting of Weekly Transmission Reports. When disbursing stations determine that Paid No Issue Reports were issued because of incomplete Weekly Transmission Reports, they must submit complete Weekly Transmission Reports. When disbursing stations determine that checks were improperly issued, they must review the situation and report the amount on the Statement of Accountability and the Statement of Transactions, which adjusts the Fund Balance With Treasury account.

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Auditor General, Department of the Navy
Inspector General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Cleveland Center
Director, Defense Finance and Accounting Service Columbus Center
Director, Defense Finance and Accounting Service Denver Center
Director, Defense Finance and Accounting Service Indianapolis Center

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
Relations, Committee on Government Reform

Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

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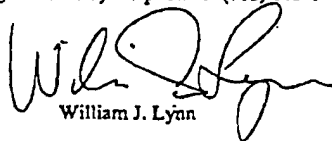


MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Reconciliation of Differences Reported for Checks Issued by the
Defense Finance and Accounting Service Columbus Center Disbursing Stations
(Project No. 8FA-2021.02)

My staff has reviewed the subject draft audit report and concurs with its recommendations. The procedures for reconciling differences in the number of checks issued will be incorporated into Volume 5, "Disbursing Policy and Procedures," of the DoD Financial Management Regulation. The Defense Finance and Accounting Service intends to develop and implement an automated database to use in tracking check issue differences at disbursing stations.

My staff point of contact in this matter is Ms. Melanie Willis. She may be reached by e-mail: willism@osd.pentagon.mil or by telephone at (703) 602-0456.


William J. Lynn

Defense Finance and Accounting Service Comments



DFAS-HQ/ASF

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

OCT 28 1999

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT
OF DEFENSE

SUBJECT: Audit Report on Reconciliation of Differences Reported for Checks Issued by
the Defense Finance and Accounting Service Columbus Center Disbursing
Stations (Project No. 8FA-2021.02)

Our response to the subject audit is attached. The primary point of contact (POC)
is Mr. Wayne Ebaugh, (703) 607-2857 or DSN 327-2857, and the secondary POC is
Mr. Mike Bryant, (703) 607-1562 or DSN 327-1562.

Edward A. Harris
Edward A. Harris
Director for Accounting

Attachment:
As stated

cc:
DFAS-HQ/PO
DFAS-IN/PII
DFAS-CO/A
DFAS-CO/DI
DFAS-CL/A

**DFAS Comments on Department of Defense Inspector General Audit Report on
Reconciliation of Differences Reported for Checks Issued by the Defense Finance and
Accounting Service Columbus Center Disbursing Stations (Project No. 8FA-2021.02)**

Specific Comments

Impact of Differences in Checks Issued on the Fund Balance With Treasury Account, second sentence, page 11. Unreconciled differences contribute to the inaccuracy of the DoD Fund Balance With Treasury account.

DFAS Management Comments. The Defense Finance and Accounting Service (DFAS) does not agree with the above statement. The preponderance of differences related to check issues identified by the audit occurred due to timing differences between amounts reported by the Defense Check Reconciliation Module (DCRM) and amounts included on the consolidated Statement of Accountability. Once DCRM check issue information was reported to the Treasury, the differences were eliminated. In this situation, the timing differences did not have an impact on the DoD Fund Balance with Treasury account. Similarly, checks reported as paid-no-issue (PNI) will occur when the DCRM check reporting information is not transmitted timely to the Treasury. Again, once the DCRM check issue information was reported to Treasury, the PNI differences were eliminated. Again, there is no impact on the DoD Fund Balance with Treasury account. In limited cases where a check is negotiated for a different amount than was reported to Treasury and the negotiated amount was correct, there is an immaterial impact on the DoD Fund Balance with Treasury account.

Responses to Recommendations

We recommend that the Director, Defense Finance and Accounting Service:

Recommendation 2a. Develop an automated database for the Defense Finance and Accounting Service Centers to use in tracking check issue differences at disbursing stations and a standard format for the Centers to use in reporting the differences.

DFAS Management Comments: Concur. The U.S. Treasury plans to send to the DFAS Centers an electronic data file that can be used for the reconciliation process. The U.S. Treasury will begin developing the file after the Y2K period. Once the U.S. Treasury starts providing the data electronically, we will develop the recommended automated database.

Estimated Completion Date: June 30, 2000.

Recommendation 2b. Direct the Defense Finance and Accounting Service Centers to provide quarterly reports for management action to their disbursing stations and to Defense Finance and Accounting Service Headquarters, identifying the amount of check issue differences for each disbursing station.

DFAS Management Comments: Concur. The DFAS will implement this recommendation once the automated database discussed in recommendation 2a is completed. The estimated completion date of June 30, 2000 is for the issuance of the requirement. The first report will be for the quarter ending September 30, 2000.

Estimated Completion Date: June 30, 2000.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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D. Currently Applicable Classification Level: Unclassified

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